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Challenges and Opportunities of Agricultural Finance in India

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Abstract

Agriculture is the strength of national economy, more than 55% of population is depend on agriculture activity, the opportunity of agricultural finance remained limited to increase efficiency by introduction of high yielding seeds, use of chemical fertilizers and pesticides and making availability of institutionalized credit for purchasing the preceding inputs. Agriculture finance till today was addressing institutionalization of credit at farmers' level in marketing, trade, processing and agribusiness. This paper is aimed at emphasizing the significance to reinforce agriculture finance system for the inclusive growth of agriculture, food security and rural development.

Key Words:

Kisan Credit Card (KCC), Rural Development, Credit Policy, Agriculture Finance

Introduction

Agriculture is the backbone of Indian economy and it certainly comes as no amazement to see financial institutions offers monetary aid to farmers all over the country. The rural finance in India originates in 19th century. It is fundamentally anxiety with providing agricultural finance to the farmers of India. Although the agriculture finance commenced in the earlier, it's still not reaches on its pinnacle even in the 21st era. The history pays close attention to the positive and negative changes in the agriculture finance in India. Agriculture finance was beginning in the colonial period. The problem faced by farmers revel a remarkable continuity from this situation through

the period under study. Dependence on local money lenders creates exploitative environment which affects badly to the rural poor farmers.

The growth of cooperative credit society also could not help poor farmers to come out of the situation. The era of nationalized banks in 1969 documents positive impact on rural finance provide access to agriculture finance to rural farmers. It worked as a foundation for growth of agriculture finance in India; under the nationalization program. Post that microfinance sector also arise to address the crisis of agriculture finance through its different approaches of microfinance institutions and self-help group Banks linkage (SBL) to make a positive impact on security and empowerment of farmers. Though these reforms have undoubtedly increased agriculture finance scenario in India, agriculture finance to the poor and India's backward regions has been extremely adverse that leads to farmers to commit suicide.

History of Indian Agriculture Finance

Indian agriculture always dependent on agriculture finance provided with high interest rates. It creates serious problems of exploitation leading to farmer indebtedness in a country. The problem was first addresses by the British government in 1870s. Government has started providing credit in the form of short-term loans during the drought years.

The first step for institutionalization has begun with the cooperative societies act in 1904. According to the report of Maclagan committee on cooperative in 1915 a 3-tier cooperative credit structure has been established in all provinces. The royal commission on agriculture in 1926-27 emphasized on access to rural credit. The Reserve Bank of India Act, 1934 also make provision for agriculture finance. As a first step towards rural institutionalized credit RBI has conducted different studies in 1936 and 1937 found that major share of the credit required by the rural community was financed by the non-institutional.

Reserve bank of India has initiated several steps to provide institutionalized credit to the rural community. It has initiated a new structure to provide two types of time bound credit namely short term and loan term credit. After injecting several measures to increase agriculture finance in country, till 1951 the institutional credit stood at 4.2 per cent of total agriculture finance, of which

3.3 per cent contributed by cooperative and 0.9 per cent by commercial banks. According to the All India Rural Credit survey in 1954 agriculture finance fell short of the right quantity, right type, did not serve the right purpose and often failed to reach the right people.

Nationalized of banks promote commercial banks to extend agriculture finance. RBI is also insisting to provide 40 per cent net bank credit towards priority sector with a sub sector target for agriculture with 18 per cent (out of which 13.5 per cent for direct agriculture and 4.5 per cent for indirect agriculture). Lead bank scheme is also introduced for ground level planning to monitor and report the performance of agriculture sector. High credit is also required for the purchase of seeds, irrigation system, fertilizer and chemical pesticides. Besides the cost of production has also raised drastically that focuses on requirement of agriculture finance policy in the country.

Institutional arrangement for agriculture credit

RBI	NABARD	Commercial banks				
		Cooperative banks	Long term credit structure	State cooperative agricultural development banks	Primary cooperative agricultural land rural development banks	
			Short term credit structure	State cooperative banks	District central cooperative banks	Primary agriculture finance society
		RRB				

Agriculture finance is channelized through multi – agency network consisting of commercial banks, regional rural banks, and cooperatives. There are approximately 121225 million villages level primary agriculture finance societies, 371 district central banks with 28 state cooperative banks with 1028 branches providing primarily short term and medium-term agricultural finance in the country. The long-term cooperative structure consist of 19 states cooperative agricultural nd rural development banks and 755 primary cooperative agriculture and rural development banks with 1219 branches and 689 branches respectively, which are catering to the requirement of

investment credit. Besides, there are 45957 rural and semi-urban branches of commercial banks. 14462 branches of RRBs and more than 7million micro finance institutions.

Agriculture Finance Policy

Government has implemented several measures to improve the accessibility of farmers to the institutional sources of credit. The objective of this policy measures is to provide required credit easily as and when required by the farmers. The policy focused on providing timely and adequate credit support to all farmers to enable them to adopt modern technology and improved agricultural practices to increase production. The policy also put emphasis on rationalization of procedure, ground level support and credit planning. The progress report card of the policy is shown below. It can be seen that during last three years the target established for providing institutional credit is not achieved due to procedural delays and less accuracy in implementation of policy.

Table 1: Amount Granted to Agriculture Sector

Rs in crore

Year	2013-14	2012-13	2011-12	2010-11	2009-10
Target	700000	575000	475000	375000	325000
Achievement	421365	308025	511029	468291	384514

Source: RBI

Table 2: Direct institutional credit for Agriculture: short term

Rs in crore

Year		2011-12	2010-11	2009-10	2008-09	2007-08
Loan issued	Cooperatives bank	66439	63231	61951	48022	47390
	Commercial banks	217897	146063	124646	107766	68243
	Regional rural banks	47011	38560	30529	22851	20377
	Total	331347	247854	217126	178639	136010

Source: RBI

The above table indicate the amount of short-term finance provided to agricultural activity during 2007-08 to 2011-12. It shows that the overall loan issued is increased from Rs. 136010 to Rs.

331347 in a five year respectively. The increase in loans issued amount to 2.5 times and even in each subcategory the granted amount for agricultural purpose is also increased.

Table 3: Direct institutional credit for Agriculture: long term

Year		2011-12	2010-11	2009-10	2008-09	2007-08
Loan issued	Cooperative banks	7500	7235	12987	10765	10253
	Commercial banks	94980	96729	63607	52924	45229
	RRBs	6048	5405	4111	3648	3461
	Total	108528	109369	80705	67337	58943

Source: RBI

The above table shows the amount of long-term finance provided to agricultural activity during 2007-08 to 2011-12. It shows that the overall loans issued is increased from 58943 Cr to 108528 in five year respectively

Some of the important agriculture loans in India.

One can avail a loan for the following activities related to agriculture:

1. Running day to day operations
2. Buying farm machinery such as tractors, pump set, harvester etc.
3. Purchasing land
4. Storage purpose
5. Product marketing loans
6. Expansion

Moreover, these financial aid can be offered in form of grants and subsidies too. Which are usually meant to protect the farmer in an event of crop damage or loss of crops. Agricultural loans in India are not only offered to farmers working towards the cultivation of food crops, but they are available to anyone who is engaged in other agriculture-related sector like horticulture, aquaculture, animal husbandry, silk farming, apiculture and floriculture.

National Bank for Agriculture and Rural Development (NABARD)

All premier banking and financial organizations at all levels, offer a great deal of financial help to farmers. However, this trend of boosting the rural economy and agriculture through financial credit was started by the NABARD in the early 1980s. When it comes to credit in the field of agriculture, all other banks throughout the country fall under the purview of the NABARD. This financial institution is working in conjunction with the government of India to boost agriculture sector. It is credited with several innovative schemes that have immensely aided the farmers throughout the country. The most notable scheme launched by the NABARD is the Kisan Credit Card (KCC).

Kisan Credit Card Scheme

The Kisan Credit Card is a scheme started in 1998 for issuing KCC to farmers based on the holding for uniform adoption by the bank. The farmers can Kisan credit card to readily purchase agriculture inputs like fertilizers, seeds, pesticides etc., and withdraw cash for their production needs. The scheme was further enhanced for the investment credit requirement of farmers and non-farm activities in 2004 and Kian credit card scheme was revised in 2012 to simply the scheme and to issue e-kisan credit cards.

Applying for the KCC is a simple hassle-free procedure that wants minimum documents. It further allows crop insurance coverage, along with subsidies on interest payments. Farmers under the KCC scheme can borrow loan 7 per cent per annum for amount up to Rs. 3 lakh. The kisan credit card linked with the farmers saving account and all the transactions are done under a single account. Additionally, any credit balance in the KCC account earns interest. All farmers can apply for a KCC.

Other agricultural loan schemes like Dairy Entrepreneurship development scheme, loan against warehouse receipts, solar scheme etc. where available through NABARD. As well as lead banks like State Bank of India agriculture loans, HDFC Bank, ICICI Bank, AXIS Banks also provide agriculture loans to farmers.

Conclusion

To fortify the economy, it is essential to eradicate poverty, food insecurity and unemployment in India. This difficult can be resolved by targeting agriculture finance problem. Subsequently initiation agriculture finance approach focused on addressing institutionalization of credit at farmers' level in marketing, trade, processing and agribusiness. The All India Rural Credit Survey 1954 has revealed that agriculture finance in India fell short of the right quantity, right type, did not serve the right purpose and often failed to go to the right people. However, the amount granted to agriculture sector is increased since last couple of periods, the benefit of it extended to right people, on right time and in right quantity is a great matter of apprehension in India. Even today rural credit for infrastructure requirement for production, processing, marketing, distribution, utilization, trade with value added service required serious attention of government. The study exposes that still the institutional credit in India to agriculture sector is increased in quantum but an effect has to be taken to provide it to the right kind of people, at right time, on right place and in right quantity that lift Indian agriculture sector in a right direction.

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